

Message Text

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ACTION EB-07

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FM AMEMBASSY PARIS

TO SECSTATE WASHDC IMMEDIATE 7117

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E.O.LL652: N/A

TAGS: ETRD, EIND, EAIR, FR

SUBJECT: FOURCADE VIEWS ON AIRCRAFT PROCUREMENT BY
AIR FRANCE

REF: PARIS 5010, STATE 45198 (NOTAL) PARIS 5215

1. SUMMARY: THIS MESSAGE DISCUSSES CIVAIR IMPLICATIONS OF FOURCADE REMARKS. GOF APPROVAL OF AIR FRANCE AIRCRAFT PURCHASES IS STANDARD PROCEDURE. FOR 707 REPLACEMENT US IS ONLY SOURCE OF SUPPLY. MERCURE IS POOR REPLACEMENT FOR CARAVELLE BECAUSE OF SHORT RANGE AND EXCESSIVE CAPACITY; PRICE IS ALSO TOO HIGH. REOPENING MERCURE PRODUCTION LINE WOULD BE COSTLY TO BOTH DASSAULT AND GOF. IF GOF CHOOSES DEFEND AEROSPACE INDUSTRY IT RISKS IMPERILING POSITION OF NATIONAL CARRIER. OVER SHORT TERM, MUCH WILL DEPEND ON HOW PERSUASIVELY AIR FRANCE CAN ARGUE ITS OWN CASE FOR 737'S.

2. FOURCADE'S OUTBURST WAS SURPRISING IN SUGGESTING THAT AIR FRANCE MIGHT BE TRYING BUY AIRCRAFT BEHIND
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GOF'S BACK. AS REPORTED PARIS 29023, SECSTATE OF

TRANSPORT CAVAILLE INDICATED TWO MONTHS AGO QUESTION OF POSSIBLE PURCHASE OF 737'S BY AIR FRANCE WAS ALREADY UNDER REVIEW WITHIN GOF. IN ANY CASE, FRENCH CARRIERS ARE REQUIRED OBTAIN PRIOR APPROVAL ACQUISITION NEW AIRCRAFT FROM GOF'S CONSEIL SUPERIEUR DE L'AVIATION MARCHANDE, WHICH IS INTER-MINISTERIAL BODY ON WHICH FINANCE IS AMONG MINISTRIES REPRESENTED.

3. THERE IS AMPLE EVIDENCE OF GOF PRESSURE ON FRENCH CARRIERS IN THE PAST TO BUY FRENCH AIRCRAFT. AIR FRANCE TOLD BOEING IN CONFIDENCE LAST WEEK IT HAD RECEIVED LETTER FROM CAVAILLE ORDERING TERMINATION OF ANY DISCUSSIONS WITH BOEING OR DOUGLAS CONCERNING POSSIBLE PURCHASE OF REPLACEMENT AIRCRAFT. (WE HAVE NOT YET HAD OPPORTUNITY CHECK THIS OUT WITH AIR FRANCE.) FOURCADE REMARKS, HOWEVER, ARE THE FIRST TO HAVE BEEN MADE PUBLICLY BY A HIGH OFFICIAL OF GOF CONFIRMING DIRECTION OF SOME THINKING WITHIN GOF ON POLICY OPPOSED TO PURCHASE OF US AIRCRAFT.

4. AIR FRANCE WANTS TO REPLACE 34 CARAVELLES AND 18 FIRST GENERATION 707'S. FOR 707 REPLACEMENT FRANCE HAS TO BUY FROM THE US SINCE ITS INDUSTRY DOES NOT NOW MANUFACTURE A LONG-RANGE SUBSONIC TRANSPORT. (A-300 AIRBUS DOES NOT HAVE THE RANGE AND HAS OVER TWICE THE CAPACITY OF 707. OUTLOOK WOULD BE DIFFERENT IF A FOUR-ENGINE AIRBUS WERE ON THE MARKET.)

5. MERCURE DOES NOT MEET AIR FRANCE TECHNICAL NEEDS FOR REPLACEMENT OF CARAVELLE. IN DESIGNING MERCURE DASSAULT TRADED RANGE FOR PAYLOAD. MERCURE RANGE CAN VARY FROM 900-1200 NAUTICAL MILES, DEPENDING ON TAKE-OFF WEIGHT AUTHORIZED, CONFIGURATION AND OTHER FACTORS. CARAVELLE RANGE IS ABOUT 1200 NAUTICAL MILES. 737-200 RANGE IS IN EXCESS OF 2,000 NAUTICAL MILES. (BOEING NONETHELESS CONTENTS THAT IN COMPETITION FOR SABENA CONTRACT DASSAULT WAS UNABLE GUARANTEE IN SABENA LIMITED OFFICIAL USE

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CONFIGURATION AND WITH FULL PAYLOAD MERCURE FLIGHT BRUSSELS-ROME NON-STOP (610 NAUTICAL MILES), WHEREAS BOEING WAS ABLE GUARANTEE BRUSSELS-ATHENS NON-STOP FOR 737-200. PARIS-ATHENS ROUTE WAS MENTIONED IN PARIS 2529.) RANGE COULD THUS LIMIT MERCURE'S GENERALIZED UTILIZATION ON AIR FRANCE'S INTRA-EUROPEAN ROUTES. MERCURE CAPACITY OF 150 SEATS MAXIMUM (COMPARED TO ABOUT 125 FOR 737-200 AND 95 FOR CARAVELLE) IS IN EXCESS OF

AIR FRANCE NEEDS, WHERE ON MOST OF ITS INTRA-EUROPEAN ROUTES, WE UNDERSTAND, IDEAL CAPACITY WOULD BE 100 SEATS IF MORE THAN ONE DAILY FREQUENCY OPERATED. AIR INTER OPERATES MERCURES WITH 135 SEAT CONFIGURATION.

6. QUESTION OF PRICE LOOMS IMPORTANTLY FOR AIR FRANCE AS IT SEEKS TO CUT COSTS IN ORDER TO GET ITS OPERATIONS

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OUT OF THE RED. ACCORDING TO BOEING, PRICE OFFERED TO SABENA IN 1973 WAS ALREADY \$2.5 MILLION HIGHER FOR MERCURE THAN FOR 737-200, I. E., \$8.3 MILLION VERSUS \$5.8 MILLION (FLY-AWAY PRICES), AND PRESS REPORTS THAT PRICE FINALLY PAID BY AIR INTER FOR FIRST MERCURES ON WHICH IT TOOK DELIVERY THIS YEAR WAS CLOSE TO \$10 MILLION AND EVEN THIS WAS LESS THAN WHAT DASSAULT WAS ASKING. COST OF GETTING MERCURE PRODUCTION LINE STARTED UP AGAIN PLUS OTHER FACTORS

CONTRIBUTING TO FURTHER ESCALATION IN COSTS WOULD
LIKELY MEAN CONSIDERABLY HIGHER PRICE THAN ABOVE
TO AIR FRANCE, UNLESS OF COURSE GOF WAS PREPARED
INCUR FURTHER LOSSES UNDER MERCURE PROGRAM AND
SUBSIDIZE MERCURES SOLD TO AIR FRANCE. IF AS
"COMPROMISE" GOF WERE TO URGE AIR FRANCE TO AGREE TO
BUY AT LEAST A FEW MERCURES, UNIT COST OF EACH
AIRCRAFT WOULD BE STILL HIGHER THE SHORTER THE
PRODUCTION RUN OF THE REOPENED ASSEMBLY LINE.
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7. THERE IS ALSO QUESTION OF HIGHER OPERATING AND
MAINTENANCE COSTS OF MERCURE DUE TO HIGHER PRICED
SPARE PARTS AS RESULT OF SHORT PRODUCTION RUN.
(GOF FINALLY HAD TO AGREE TO SUBSIDIZE HIGHER COST
OF SPARE PARTS FOR AIR INTER.) AIR FRANCE MUST
ALSO THINK OF IMPACT ON ITS COMPETITIVE POSITION
OF EQUIPMENT IT CAN OFFER PUBLIC ALONGSIDE THAT OF
OTHER CARRIERS ON INTRA-EUROPEAN ROUTES.

8. OFFICIAL ON SGAC CERTIFICATION STAFF TELLS US
THAT MODIFICATION OF MERCURE AIRFRAME TO PROVIDE
ADDITIONAL FUEL CAPACITY AND THUS LONGER RANGE
WOULD REQUIRE EXTENSIVE AND COSTLY REDESIGN. HE SAID
THAT EQUIPPING MERCURE WITH CFM-56 ENGINE WOULD ALSO
REQUIRE MAJOR REDESIGN OF AIRFRAME (AND CERTIFICATION
WOULD NOT BE POSSIBLE BEFORE 1979 AT THE EARLIEST
IN VIEW OF CFM-56 TIMETABLE. IN TV INTERVIEW
FEB. 27 MARCEL DASSAULT RULED OUT BUILDING
MERCURE DERIVATIVE USING CFM-56 ENGINE UNLESS AND
UNTIL MARKET WAS FOUND FOR PRESENT GENERATION
MERCURE. (COMMENT: DASSAULT DID NOT MAKE STRONG SALES
PITCH FOR MERCURE AND INSTEAD STRESSED AIR FRANCE MUST
"AVERAGE OUT" A NUMBER OF FACTORS IN DETERMINING ITS
NEEDS. THERE ARE REPORTS DASSAULT WOULD JUST AS SOON
SEE AIR FRANCE BUY 737'S SO THAT HE WOULD NOT HAVE TO
REOPEN MERCURE PRODUCTION LINE. WHY INVITE TROUBLE
WHEN THE REST OF THE BUSINESS IS BOOMING?)

9. GOF FOR ITS PART IS PROBABLY MOTIVATED MORE
BY CONCERN TO MAINTAIN ACTIVITY AND EMPLOYMENT IN
AEROSPACE INDUSTRY AND TO HEAD OFF LABOR UNREST THAN
BY CONCERN OVER BALANCE OF PAYMENTS CONSIDERATIONS
TO WHICH FOURCADE REFERRED. UNCERTAINTY OVER
DECISION ON F-104 REPLACEMENT AND WHAT IT RESERVES
FOR FUTURE OF FRENCH INDUSTRY MAY BE ANOTHER
COMPLICATING FACTOR TODAY. TRADE UNION
REACTION TO FOURCADE REMARKS THUS FAR HAS BEEN MIXED.
PILOTS' UNION SUPPORTED FOURCADE AND URGED AIR FRANCE

BE FORCED TO BUY MERCURES (THOUGH PILOTS MAIN
CONCERN IS TO PROTECT FEATHERBEDDING THIRD MEMBER OF
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FLIGHT CREWS (FLIGHT ENGINEER) UNNECESSARY ON TWO-
MAN CREW 737'S. AIR FRANCE USES THREE-MAN CREWS
ON ITS 737'S IN CARIBBEAN BECAUSE OF UNION PRESSURE.)
CFDT UNION REPRESENTING AIR FRANCE EMPLOYEES HAS
CRITICIZED FOURCADE ATTEMPT DICTATE TO AIR FRANCE
MANAGEMENT AND INSTEAD SUGGESTS DASSAULT BE BLAMED FOR

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HAVING SQUANDERED TAXPAYERS' MONEY ON PLANE WHICH IS
"A NOTORIOUS COMMERCIAL FAILURE". CGT TRANSPORTATION
FEDERATION IS CRITICAL OF BOTH GOF'S POLICY IN AERO-

SPACE INDUSTRY AND ITS INTERFERENCE WITH AIR FRANCE DECISIONS, BUT AT SAME TIME SUGGESTS AIR FRANCE KEEP CARAVELLES IN SERVICE UNTIL FRENCH INDUSTRY CAN IN A FEW YEARS PRODUCE AIRCRAFT BETTER SUITED TO AIR FRANCE'S NEEDS.

10. BOEING REP TELLS THAT IT HAS BEEN DECIDED WITHIN HIS ORGANIZATION NOT TO REACT TO FOURCADE REMARKS AND CONTROVERSY THEY HAVE TOUCHED OFF BUT TO LIE LOW FOR THE TIME BEING AND TO LET AIR FRANCE CARRY THE BALL.

11. COMMENT: IF THE GOF WERE TO BE WHOLLY OBJECTIVE, AIR FRANCE WOULD BE PERMITTED TO BUY FROM THE US THE AIRCRAFT IT NEEDS IN THE ABSENCE OF PRODUCTION OF COMPARABLE AIRCRAFT BY FRANCE. AND IT MAY COME TO THIS. THE GOF MUST WEIGH AGAINST DEFENSE OF ITS LIMITED OFFICIAL USE

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AEROSPACE INDUSTRY THE RISK OF WEAKENING THE COMPETITIVENESS, THE FINANCIAL POSITION, AND THE INTERNATIONAL STANDING OF ITS PRESTIGIOUS NATIONAL CARRIER. THE BIG QUESTION, OF COURSE, IS HOW OBJECTIVE THE GOF WILL DETERMINE IT CAN AFFORD TO BE IN THE PRESENT DOMESTIC CLIMATE. WHILE THE VIEWS OF FOURCADE ARE KNOWN, WE DO NOT KNOW WHETHER THESE VIEWS YET REFLECT AGREED GOF POLICY. PROBABLY NOT, IN THE LIGHT OF THE FINANCE MINISTRY'S MISE AU POINT. AS A RESULT OF THE PUBLICITY SURROUNDING FOURCADE'S REMARKS THE GOF'S DECISION IS NOW CERTAIN TO BE TAKEN AT THE HIGHEST LEVELS, IF THIS WOULD NOT HAVE OCCURRED ANYWAY. OVER THE SHORT TERM, THE OUTCOME MAY HINGE TO A LARGE EXTENT ON HOW FORCEFUL AIR FRANCE'S TOP MANAGEMENT IS PREPARED TO BE AND HOW PERSUASIVELY THEY CAN CONTINUE TO ARGUE THEIR OWN CASE BEFORE THE GOF.
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